

MONTGOMERY WARD
Seventy-Second Annual Report
Twelve Months Ended
January 31
1944

BOARDS

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Montgomery Ward & Co.

INCORPORATED

(AN ILLINOIS CORPORATION)



Seventy-Second Annual Report
Twelve Months Ended
January 31, 1944



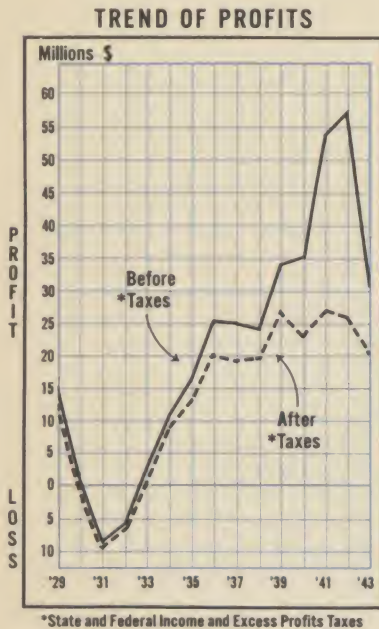
Chicago, March 20, 1944

To the Shareholders of

Montgomery Ward & Co.:

Net profits for the fiscal year ended January 31, 1944 were \$20,677,098, representing a return of 8.6% on net worth, compared with the profits of \$26,437,584 for the preceding fiscal year. The earnings per share of outstanding common stock were \$3.69, after deducting dividends paid on the Class

"A" stock, compared with earnings of \$4.79 per share for the preceding year.

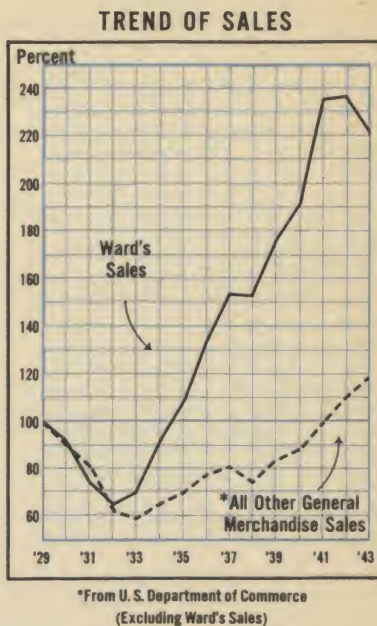


Net sales of \$595,932,821 for the year were \$39,074,158, or 6.2% lower than the sales for the previous year, and reflect the inability to obtain sufficient merchandise of acceptable quality to meet an unprecedented demand. In addition to the thousands of customers who were unable to find what they wanted in the retail stores, the company's mail order customers sent orders for \$105,000,000 which could

not be supplied because of the shortage of merchandise, but which cost more than \$8,000,000 to handle. This expense of handling orders on which no profit could be realized caused the usually profitable mail order business to operate at a loss.

Merchandise inventories at the year-end were lower than a year ago by \$15,155,396, or 10.8%. The necessities of war, shortages of raw materials and man power, and the effect of price ceilings, have caused many manufacturers to produce merchandise of lower quality, which has been acceptable only because of necessity and under the stress of war conditions. Wards, like all merchants, must meet customer demand with the goods the market provides. Early in the year a policy was adopted of buying restricted quantities of this type of merchandise only when absolutely essential to customer service. As a result, minimum stocks of these items were on hand at the end of the year.

Almost all company activities are controlled by thousands of governmental regulations and the frequently conflicting



rulings, amendments, and court decisions relating to them. These determine wages and hours of work; they define the kinds of merchandise which may be bought and sold; they limit the prices which may be paid to manufacturers; and set the merchant's ceiling prices. The company, at substantial cost, has earnestly endeavored to accurately interpret and conscientiously comply with all of these directives, while at the same time being subjected to all the operating handicaps and higher costs which wartime conditions impose. The constantly increasing costs of manufacture have enabled some suppliers of merchandise to obtain permission to increase their prices, although corresponding price advances have been denied the merchants who sell at retail. All of these factors contributed to the severe decline in the company's profit.

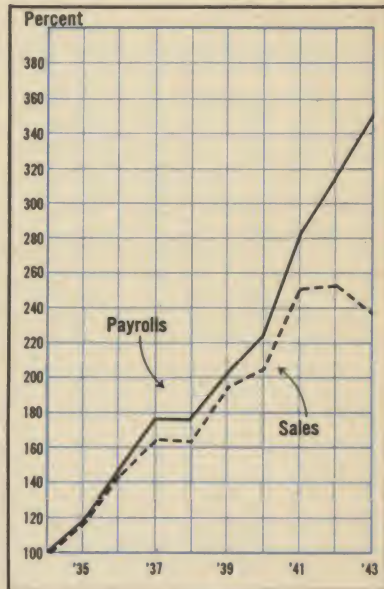
While sales were \$39,074,158 less than last year, payrolls were \$11,371,266 higher. This increase in compensation raised the total payroll costs to 18 cents for each dollar of sales in 1943, compared with 15 cents for the preceding year, and an average of 13 cents in the previous eight years. Over 7,600 Montgomery Ward people, many of them fully trained and experienced, left during the year to enter the armed services. Additional thousands left for employment in war industries. In order to maintain an average staff of 78,000, it was necessary to hire 151,000 new employees during the year at a cost of over \$500,000 in newspaper, radio, and billboard advertising. These extreme conditions continue to be a great burden upon the thousands of earnest and experienced people in all branches of

the business. We feel a keen sense of gratitude and appreciation for the able and conscientious help rendered the company by these loyal men and women.

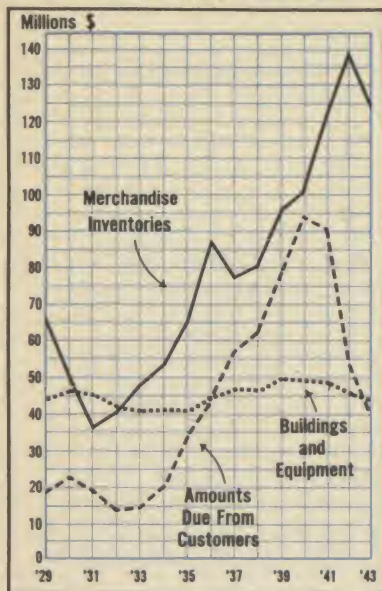
The company is proud of the more than 19,000 Montgomery Ward people who are serving in the armed forces, including over 500 girls in the auxiliary branches. For every three men who are normally employed by the company, two have left Wards to serve their country.

The governmental restrictions of time payment sales and the collection of accounts since the beginning of the war have resulted in a substantial improvement in the cash position. Cash and government securities amounted to \$91,201,467 at the end of the year, and exceeded the current liabilities by \$45,426,180. Net working capital increased \$11,667,773 during the year, to \$212,058,591, and the ratio of current assets to current liabilities was 7.7 to 1 at the year end. It is anticipated that the present balances of cash and government bonds will be rapidly converted to inventories, receivables and other normal company uses early in the postwar period.

TREND OF SALES AND PAYROLLS



TREND OF MAJOR ASSETS



Cash dividends amounting to \$11,845,172 were distributed during the year, of which \$1,410,878 were paid to the Class "A" shareholders and \$10,434,294, or \$2.00 per share, to the holders of common stock. The earnings retained in the business, amounting to \$8,831,926, increased the earned surplus at the end of the year to \$100,077,598, and the book value of common stock to \$43.89 per share.

So long as the production of civilian merchandise is limited by the necessities of war, and the governmental restrictions and regulations continue, the company's operations will be adversely affected.

Respectfully submitted,

SEWELL AVERY,

Chairman of the Board

Montgomery Ward

Balance Sheet —

ASSETS

Current Assets:

Cash.....		\$ 16,794,694.28	
U.S. Government securities (short term)....		60,408,773.06	
Receivables—			
Customers' time payment accounts.....	\$ 39,921,365.15		
Customers' charge and other accounts..	5,674,015.56		
Due from suppliers, claims receivable, etc.	2,333,208.11		
	<u>\$ 47,928,588.82</u>		
<i>Less—Reserves for doubtful accounts</i>			
and collection expense.....	5,874,156.88	42,054,431.94	
Merchandise inventories (priced at the lower of			
cost or market).....		124,577,979.11	
Total current assets.....		<u>\$ 243,835,878.39</u>	

Prepaid Catalog Costs and Expenses:

Catalog costs, paper stock, etc.....	\$ 4,169,667.86		
Supplies, insurance, etc.....	4,619,490.38	8,789,158.24	

Refundable Excess Profits Taxes.....		2,685,000.00	
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Fixed Assets (at cost, less depreciation reserves):

Land.....	\$ 6,150,497.90		
Buildings.....	\$ 36,278,500.80		
Fixtures and equipment..	35,245,396.64		
	<u>\$ 71,523,897.44</u>		
<i>Less—Reserves for</i>			
depreciation.....	38,192,157.37	33,331,740.07	
Leasehold improvements (less amortization) ..	4,796,311.59	44,278,549.56	
		<u>\$ 299,588,586.19</u>	

& Co., Incorporated

- January 31, 1944

LIABILITIES

Current Liabilities:

Accounts payable.....		\$ 14,007,431.31
Due customers.....		8,800,575.99
Accrued expenses and miscellaneous taxes—		
Compensation and other operating expenses.....	\$ 6,422,647.89	
State, local, and miscellaneous Federal taxes.....	2,546,632.41	8,969,280.30
Accrued Federal income taxes.....	\$ 13,998,000.00	
Less—U.S. Treasury tax notes.....	13,998,000.00	—
Total current liabilities.....		\$ 31,777,287.60

Reserves:

Possible future inventory price decline....	\$ 16,000,000.00	
Self-insurance and contingencies.....	2,698,037.16	18,698,037.16

Capital Stock and Surplus:

Capital stock—		
Authorized—		
Class “A”—205,000 shares of no par value, \$7 per share cumulative dividends, non-callable and with preference in liquidation of \$100 per share		
Common—10,000,000 shares of no par value		
Issued (stated value)—		
Class “A”—205,000 shares {	\$ 149,288,340.08	
Common—5,217,147 shares {		
Less—Class “A” Treasury stock—		
3,446 shares.....	252,676.50	
	\$ 149,035,663.58	
Earned surplus.....	100,077,597.85	249,113,261.43
		\$ 299,588,586.19

Montgomery Ward & Co., Incorporated

Comparative Income Account

	<i>Year Ended January 31</i>	
	<i>1944</i>	<i>1943</i>
Net sales.....	\$ 595,932,821.00	\$ 635,006,979.00
Deduct—		
Cost of sales, selling, and general expenses, and all taxes other than income taxes...	\$ 560,356,211.75	\$ 573,707,910.73
Depreciation and amortization of fixed properties.....	3,644,511.15	3,701,484.79
	<u>\$ 564,000,722.90</u>	<u>\$ 577,409,395.52</u>
Net profit before taxes on income.....	\$ 31,932,098.10	\$ 57,597,583.48
Provision for income and excess profits taxes—		
Federal and state income taxes.....	\$ 11,895,000.00	\$ 12,765,000.00
Excess profits taxes for the year ended January 31, 1943, less postwar refund of \$2,045,000.....	—	18,395,000.00
	<u>\$ 11,895,000.00</u>	<u>\$ 31,160,000.00</u>
Less—Prior year's excess profits taxes refundable under carry-back provisions of the Revenue Act.....	640,000.00	—
	<u>\$ 11,255,000.00</u>	<u>\$ 31,160,000.00</u>
Net profit for the year.....	\$ 20,677,098.10	\$ 26,437,583.48
Provision for possible future inventory price decline.....	\$ 1,000,000.00	\$ 10,000,000.00
Less—Excess reserves for doubtful time payment receivables provided in prior periods.....	1,000,000.00	4,000,000.00
	<u>\$ —</u>	<u>\$ 6,000,000.00</u>
Balance of net profit to surplus.....	<u>\$ 20,677,098.10</u>	<u>\$ 20,437,583.48</u>

Montgomery Ward & Co., Incorporated

Earned Surplus Account

Balance January 31, 1943.....	\$ 91,245,671.75
Net profit for the year ended January 31, 1944.....	<u>20,677,098.10</u>
Total.....	\$111,922,769.85
Deduct—	
Dividends on Class "A" stock—\$7.00 per share..	\$ 1,410,878.00
Dividends on common stock—\$2.00 per share..	<u>10,434,294.00</u>
	<u>11,845,172.00</u>
Balance January 31, 1944.....	<u><u>\$100,077,597.85</u></u>

To the Board of Directors,

Montgomery Ward & Co., Incorporated:

We have examined the balance sheet of MONTGOMERY WARD & CO., INCORPORATED (an Illinois corporation) as of January 31, 1944, and the statements of income and surplus for the year then ended, have reviewed the system of internal control and the accounting procedures of the company and, without making a detailed audit of the transactions, have examined or tested accounting records of the company and other supporting evidence, by methods, at times, and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary. We made a similar examination for the preceding year.

In our opinion, the accompanying balance sheet and related statements of income and surplus present fairly the position of the company at January 31, 1944, and the results of its operations for the two years then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Chicago, Illinois, March 8, 1944

ARTHUR ANDERSEN & CO.

Montgomery Ward

Comparison of

January 31

1944

1943

ASSETS

Current Assets:

Cash and U. S. Government securities . . .	\$ 77,203,467.34	\$ 44,104,977.97
Receivables, less reserves	42,054,431.94	53,539,392.98
Merchandise inventories	124,577,979.11	139,733,375.21
Total current assets	<u>\$ 243,835,878.39</u>	<u>\$ 237,377,746.16</u>

Investments, etc.

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Prepaid Catalog Costs and Expenses	8,789,158.24	9,345,872.42
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Refundable Excess Profits Taxes . . .	2,685,000.00	2,045,000.00
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Fixed Assets, less depreciation reserves .	44,278,549.56	46,360,092.54
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	<u>\$ 299,588,586.19</u>	<u>\$ 295,128,711.12</u>
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LIABILITIES

Current Liabilities	\$ 31,777,287.60	\$ 36,986,928.02
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Reserves	18,698,037.16	17,860,447.77
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Capital Stock and Surplus:

Capital stock issued (stated value)	149,288,340.08	149,288,340.08
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Less—Treasury stock	252,676.50	252,676.50
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Earned surplus	100,077,597.85	91,245,671.75
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	<u>\$ 299,588,586.19</u>	<u>\$ 295,128,711.12</u>
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Net Working Capital	<u>\$ 212,058,590.79</u>	<u>\$ 200,390,818.14</u>
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& Co., Incorporated

Balance Sheets

January 31

1942	1941	1940	1939
\$ 15,955,864.32	\$ 16,413,449.52	\$ 14,396,411.78	\$ 24,392,658.32
91,073,513.80	94,715,917.04	78,880,212.23	62,593,190.86
123,102,953.27	101,710,763.19	96,323,612.35	81,494,245.14
<u>\$ 230,132,331.39</u>	<u>\$ 212,840,129.75</u>	<u>\$ 189,600,236.36</u>	<u>\$ 168,480,094.32</u>
678,173.19	856,717.66	5,234,915.76	6,012,450.51
10,508,081.83	8,357,296.38	7,153,715.14	6,655,355.50
—	—	—	—
48,981,230.09	49,623,059.86	49,848,028.48	46,683,089.82
<u>\$ 290,299,816.50</u>	<u>\$ 271,677,203.65</u>	<u>\$ 251,836,895.74</u>	<u>\$ 227,830,990.15</u>
\$ 51,239,949.87	\$ 49,362,756.68	\$ 40,704,948.96	\$ 31,901,197.85
7,370,942.78	1,132,067.31	1,132,412.06	1,095,730.48
149,288,340.08	149,288,340.08	149,288,340.08	149,288,340.08
252,676.50	252,676.50	252,676.50	252,676.50
82,653,260.27	72,146,716.08	60,963,871.14	45,798,398.24
<u>\$ 290,299,816.50</u>	<u>\$ 271,677,203.65</u>	<u>\$ 251,836,895.74</u>	<u>\$ 227,830,990.15</u>
<u>\$ 178,892,381.52</u>	<u>\$ 163,477,373.07</u>	<u>\$ 148,895,287.40</u>	<u>\$ 136,578,896.47</u>

Montgomery Ward

Comparison of Sales,

FISCAL YEAR	NET SALES	PROFIT BEFORE INCOME TAXES	INCOME TAXES	NET PROFIT
1943	\$ 595,932,821	\$ 31,932,098	\$ 11,255,000	\$ 20,677,098
1942	635,006,979	57,597,584	31,160,000	26,437,584
1941	632,708,657	54,011,716	26,660,000	27,351,716
1940	515,910,915	35,083,017	12,055,000	23,028,017
1939	474,882,032	34,310,645	7,300,000	27,010,645
1938	413,961,241	24,044,956	4,400,000	19,644,956
1937	414,090,544	25,110,029	5,900,000	19,210,029
1936	361,297,059	25,198,914	5,000,000	20,198,914
1935	293,042,357	16,837,310	3,310,000	13,527,310
1934	249,805,721	11,161,054	2,000,000	9,161,054
Totals	\$ 4,586,638,326	\$ 315,287,323	\$ 109,040,000	\$ 206,247,323

& Co., Incorporated

Earnings, and Surplus

DIVIDENDS	INVENTORY PRICE DECLINE RESERVE	EARNED SURPLUS (End of Year)	BOOK VALUE PER COMMON SHARE
<hr/>	<hr/>	<hr/>	<hr/>
\$ 11,845,172	\$ 16,000,000	\$ 100,077,598	\$ 43.89
11,845,172	15,000,000	91,245,672	42.19
11,845,172	5,000,000	82,653,260	40.54
11,845,172	—	72,146,716	38.53
11,845,172	—	60,963,871	36.38
9,236,598	—	45,798,398	33.48
11,832,663	—	35,390,040	31.48
19,318,175	—	28,012,674	29.98
2,469,036	—	27,131,935	28.46
2,116,317	—	16,374,450	26.01
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\$ 104,198,649			
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Montgomery Ward & Co., Incorporated

DIRECTORS

SEWELL L. AVERY, *Chairman*

PHILIP R. CLARKE
DAVID A. CRAWFORD
PERCY B. ECKHART
CHARLES F. GLORE
WILLIAM L. KEADY
DONALD R. McLENNAN, JR.

HAROLD L. PEARSON
BERT R. PRALL
CLEMENT D. RYAN
*SILAS H. STRAWN
JAMES W. THORNE
GEORGE WHITNEY

*Chairman, Executive Committee

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CLEMENT D. RYAN.....*President*
ROWLAND S. STEVENS.....*Vice-President*
BERT R. PRALL.....*Vice-President*
HAROLD L. PEARSON.....*Vice-President & Treasurer*
HARRY T. EATON.....*Vice-President*
PHILIP W. HARRIS.....*Vice-President*
HAROLD E. MACDONALD.....*Vice-President*
EARL G. WARD.....*General Comptroller*
LESLIE F. CREWS.....*Retail Comptroller*
CARL D. BERRY.....*Mail Order Comptroller*
STUART S. BALL.....*Secretary*
ARTHUR R. CAHILL.....*Assistant Treasurer*
ROBERT S. SMITH.....*Assistant Treasurer*
JOHN A. BARR.....*Assistant Secretary*
RALPH G. CRANDALL.....*Assistant Secretary*

Transfer Agents

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J. P. MORGAN & CO., INCORPORATED, NEW YORK, N. Y.

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THE FIRST NATIONAL BANK OF CHICAGO, CHICAGO, ILL.
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